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Stuart House International Limited

Stuart House

File

**Stuart
House**
Covers Canada



Annual Report 1976

STUART HOUSE INTERNATIONAL LIMITED

DIRECTORS

John Lyon Stuart	Executive
Howard Maitman	Executive
Bill Harding	Executive
Charlie Hoy	Executive
Tyrus Ebata	Executive

CHIEF EXECUTIVE OFFICERS

President	John Lyon Stuart
Vice-President — Sales Eastern Canada	A. W. (Bill) Harding
Vice-President — Sales Western Canada	C. E. (Chas.) Hoy
Vice-President — Finance	Howard Maitman
Secretary	Tyrus Ebata

AUDITORS

Resnick, Wintraub & Co.	Toronto, Ontario
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BANKERS

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

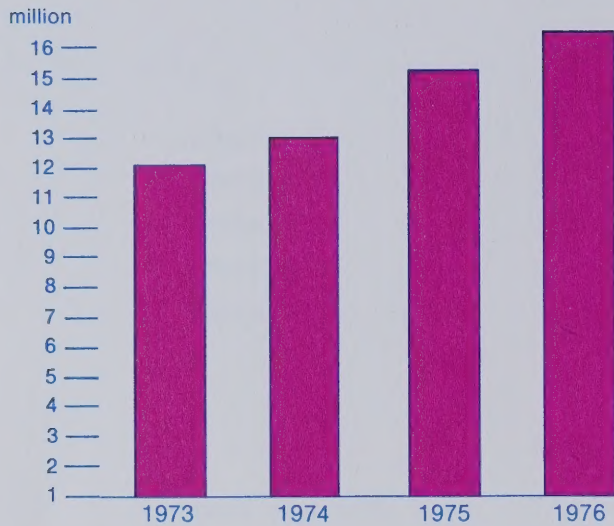
Montreal Trust Company, Toronto and Calgary

SUBSIDIARY COMPANIES

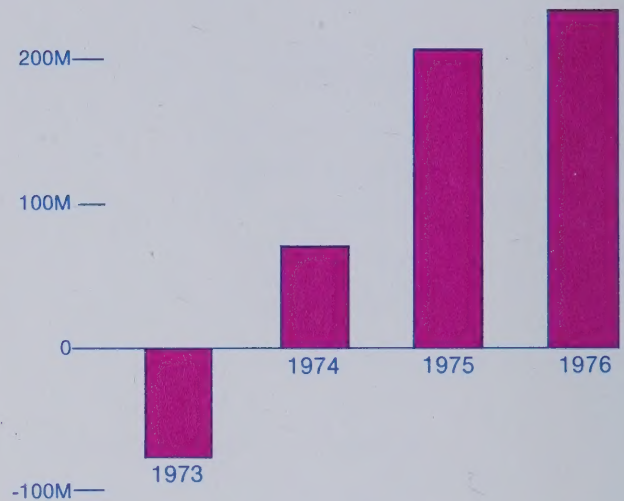
Stuart House Canada Limited	Weston, Ontario
Burlington Packaging Limited	Burlington, Ontario
Romar Pet Supplies Limited	Willowdale, Ontario

THE HIGHLIGHTS

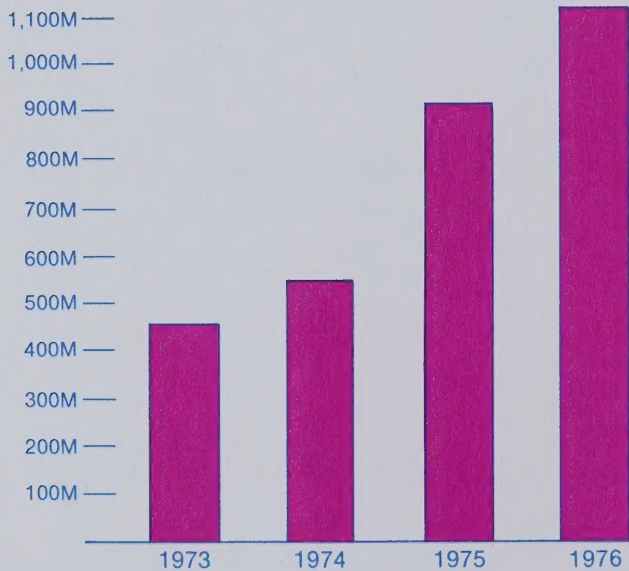
\$ Sales



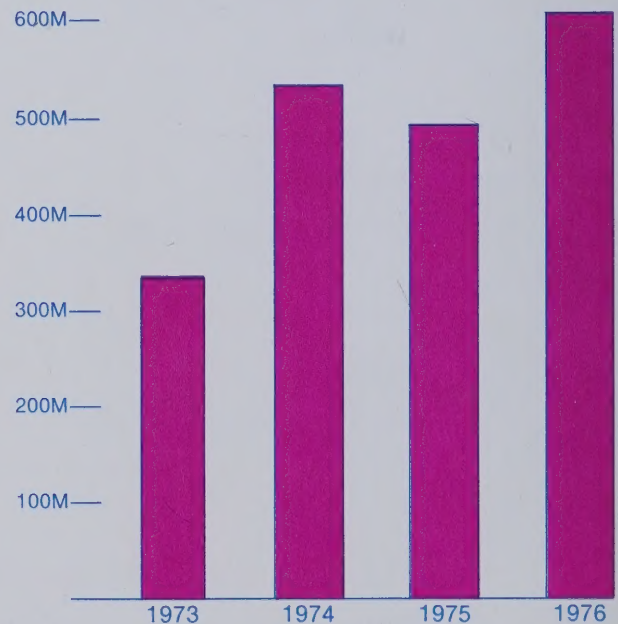
Net Profit (Before Extraordinary Items)



Shareholders' Equity



Working Capital



Balance Sheet Highlights

	1973	1974	1975	1976
Current Liabilities	\$ 2,802,700	\$ 1,624,500	\$ 1,374,100	\$ 1,290,700
Total Liabilities	3,393,700	2,124,500	1,374,100	1,290,700
Current Assets	3,132,000	2,169,700	1,876,700	1,900,000
Tangible Assets	3,490,600	2,374,900	2,046,900	2,208,300
Shareholders' Equity	457,800	582,900	907,200	1,145,500
Working Capital	329,300	545,200	492,600	614,000

Operating Highlights

	1973	1974	1975	1976
Sales	\$12,244,400	\$13,066,500	\$15,284,500	\$16,264,800
Gross Profit	(69,500)	124,900	447,000	477,400
Profit before Extraordinary Items	(67,200)	60,800	202,600	233,800
Earnings Per Share	(11.2¢)	9.8¢	32.6¢	37.6¢
Net Profit including Extraordinary Items	(428,700)	125,300	338,200	239,800
Per Share including Extraordinary Items	(69.8¢)	20.1¢	54.4¢	38.6¢

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PRESIDENT'S LETTER

To The Shareholders:

This year's report shows continued success in achieving the financial goals which the present executive team set for itself when it took over your Company's management reins in 1973. As you can see from the highlights page, opposite, your Company established new record levels of Sales and Operating Profits in its recently completed fiscal year, while your Shareholders' Equity increased by 25% to \$1,145,000.

Your Company's Consolidated Sales increased by 6.4% to \$16,264,800 in its most recent fiscal year. Moreover, we must remember that, in September, 1974, we sold the Company's school supply division which contributed nearly one million dollars to sales for the Company's previous fiscal year which ended February 28, 1975. Thus, the actual increase in sales for your Company's divisions which were operating in both fiscal years was 13%. This increase is particularly gratifying since it was achieved in a year of great competitive activity, as product surpluses replaced the shortages of 1974.

product
surpluses

The Company's Operating Profits also increased nicely, as Net Profits Before Extraordinary Items rose by 15%, from \$202,600 in 1975 to \$233,800 for this year.

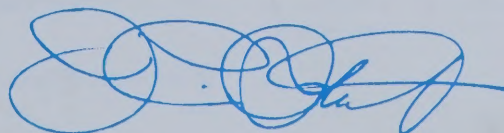
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Your management is very pleased that, shortly after the fiscal year end, in March of 1976, we were able to resume payment of dividends on your common shares, after an interruption of several years. While we can't make any promises, your directors hope to be able to continue the policy of paying dividends on the Company's common shares, based on earnings and in accordance with sound working capital and cash requirements and subject to the limits prescribed by the Anti-Inflation Act and its related regulations.

Your directors are also gratified to report that, while we still have a significant line of credit from our bankers, secured by our accounts receivable and inventories, in fact, we have not used bank loans since September of 1975. Indeed, during the last few months, we have periodically placed funds in short term deposits and earned interest income on same. A further indicator of our financial stability is the fact that we were able, in February, 1976, to secure the release of all other floating charge debentures. This resulted in the discharge of any and all encumbrances on the assets of the Company, aside from the periodic pledging of inventories and accounts receivable, referred to above.

As managers of a sales and distribution company, we must always remember that, in addition to serving our customers and taking care of the interests of our shareholders and employees, we have a very important duty to ensure that our principals, those companies we represent as sales agents, are represented in the best possible manner in all areas of Canada. In this new fiscal year, management has budgetted for a 23% increase in the cost of its sales force to expand and improve our coverage in the drug field and in Western Canada. Although this complete-coverage effort costs money, and, in fact, we are not forecasting any great increase in profit for this year, we consider it an investment in the future growth of your company. We believe that it is only by offering the most effective sales coverage for the dollars spent that we can best serve our present principals and attract new ones, thereby ensuring your Company's continued success.

On Behalf of the Board,



J. L. STUART,
President.

Toronto, May 15, 1976.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 29, 1976

(with comparative figures for 1975)

	1976	1975
Sales		
Warehouse sales	\$ 9,370,560	\$ 9,060,701
Commission sales	6,894,291	6,223,772
	<u>\$16,264,851</u>	<u>\$15,284,473</u>
Gross margin on warehouse sales (after depreciation of \$52,229 in 1976 and \$37,376 in 1975)	3,045,129	2,548,588
Commission income	451,257	381,542
	<u>3,496,386</u>	<u>2,930,130</u>
Selling and administrative expenses	3,018,976	2,483,128
	<u>477,410</u>	<u>447,002</u>
Income taxes	237,045	238,102
	<u>240,365</u>	<u>208,900</u>
Minority interest-share of profit of a subsidiary	6,543	6,275
Profit before extraordinary items	233,812	202,625
Extraordinary items (Note 9)	5,930	135,574
Net profit for the year	\$ 239,752	\$ 338,199
Earnings per share:		
Before extraordinary items	37.6¢	32.6¢
Extraordinary items	1.0	21.8
Net profit for the year	38.6¢	54.4¢

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED FEBRUARY 29, 1976

(with comparative figures for 1975)

	1976	1975
Deficit, beginning of year	\$ 246,822	\$ 571,116
Net profit for the year	239,752	338,199
	<u>7,070</u>	<u>232,917</u>
Dividends paid on preferred shares	1,474	1,474
Write-off of stock issue expense	—	17,500
	<u>1,474</u>	<u>18,974</u>
	<u>8,544</u>	<u>251,891</u>
Increase in cash surrender value of life insurance in excess of premiums paid	—	5,069
Deficit, end of year	\$ 8,544	\$ 246,822

(See accompanying notes to financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED FEBRUARY 29, 1976

(with comparative figures for 1975)

	1976	1975
Source of funds		
Net profit for the year	\$ 239,752	\$ 338,199
Add: Items not requiring outlay of funds		
Depreciation.....	52,229	37,376
Write-down of fixed assets	37,840	336
Minority interest — share of profit of a subsidiary	6,543	6,275
Amortization of debenture discount	—	2,500
Stock issue expense written-off	—	17,500
Unamortized debenture discount written-off	—	19,584
Increase in cash surrender value over premiums paid	—	5,069
Funds from operation	336,364	426,839
Proceeds from disposal of fixed assets	8,833	23,135
Recovery of goodwill	(5)	51,707
Reduction of notes receivable	—	3,150
	<u>345,192</u>	<u>504,831</u>
Use of funds		
Repurchase of debenture	—	500,000
Purchase of fixed assets	124,402	21,018
Increase in loans receivable	98,755	10,023
Dividends paid on preferred shares	1,474	1,474
Increase in cash surrender value of life insurance	1,172	10,531
Stock issue expense written-off	—	17,500
	<u>225,803</u>	<u>560,546</u>
Increase (decrease) in working capital	119,389	(55,715)
Working capital, beginning of year	489,464	545,179
Working capital, end of year	\$ 608,853	\$ 489,464
Represented by:		
Current assets	\$1,899,526	\$1,863,610
Current liabilities	1,290,673	1,374,146
	<u>\$ 608,853</u>	<u>\$ 489,464</u>

(See accompanying notes to financial statements)

STUART HOUSE

(Incorporated in the United States of America)

CONSOLIDATED BALANCE SHEET

(with comparative figures for 1975)

ASSETS		1976	1975
Current assets			
Accounts receivable	\$ 828,340	\$ 779,843	
Notes receivable	—	117,919	
Inventories, at lower of cost or net realizable value	1,054,280	951,647	
Prepaid expenses	16,906	14,201	
	<u>1,899,526</u>	<u>1,863,610</u>	
Investments			
Loans receivable (Note 10)	111,890	13,135	
Shares, at cost	1,296	1,296	
Cash surrender value of life insurance (Note 8)	36,693	35,521	
	<u>149,879</u>	<u>49,952</u>	
Fixed Assets			
Land, building, machinery and equipment (Note 2)	158,860	133,360	
Other assets			
Excess of cost of investments in subsidiaries over net book value at acquisition (Note 1)	264,014	264,009	
		<u>\$2,472,279</u>	<u>\$2,310,931</u>

Approved on behalf of the Board:



Director



Director

AUDITORS' REPORT
To the Shareholders of
Stuart House International Limited

We have examined the consolidated balance sheet of Stuart House International Limited as at February 29, 1976 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

INTERNATIONAL LIMITED

(Incorporated under the Laws of Canada)

SHEET AS AT FEBRUARY 29, 1976

(figures at February 28, 1975)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Current liabilities		
Bank indebtedness	\$ 230,898	\$ 490,256
Income taxes payable	194,229	158,202
Accounts payable and accrued liabilities	865,546	725,688
	<u>1,290,673</u>	<u>1,374,146</u>
Minority interest in subsidiary	36,130	29,587
Shareholders' equity		
Capital Stock		
Authorized		
100,000 Preferred shares of \$8 par value each issuable in series		
1,000,000 Common shares without par value		
Issued		
3,070 6% cumulative redeemable convertible preferred shares, Series A	24,560	24,560
621,610 Common shares	<u>1,072,580</u>	<u>1,072,580</u>
	<u>1,097,140</u>	<u>1,097,140</u>
Capital Surplus	56,880	56,880
Deficit	<u>(8,544)</u>	<u>(246,822)</u>
	<u>1,145,476</u>	<u>907,198</u>
	<u>\$2,472,279</u>	<u>\$2,310,931</u>

(See accompanying notes to financial statements)

In our opinion these financial statements present fairly the consolidated financial position of the companies as at February 29, 1976 and the results of their operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with the preceding year.

Resnick, Wintraub & Co.

Chartered Accountants,
Toronto, Ontario. April 7, 1976.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 29, 1976

1. SUBSIDIARY COMPANIES

The accompanying financial statements consolidate the accounts of the company and all of its subsidiaries:

	Ownership of Voting Stock
Stuart House Canada Limited	100.0%
Romar Pet Supplies Limited	100.0%
Burlington Packaging Limited	92.3%

During the year the company wound up one of its 100% owned non-operating subsidiaries, and initiated steps to wind up two others.

Details of excess of cost of investments in subsidiaries over net book value at acquisition:

Romar Pet Supplies Limited	\$ 245,838
West Taylor Bickle Division	18,176
	<u>\$ 264,014</u>

2. FIXED ASSETS

The major categories of fixed assets at February 29, 1976 are as follows:

	Cost	Accumulated Depreciation	Net Book Value	Rates
Buildings	\$ 32,817	\$ 27,681	\$ 5,136	5%
Machinery and equipment	508,305	448,697	59,608	20%
Vehicles	55,471	26,856	28,615	30%
Aircraft	49,755	19,902	29,853	40%
Leasehold improvements	39,141	4,893	34,248	
	685,489	528,029	157,460	
Land	1,400	—	1,400	
	<u>\$ 686,889</u>	<u>\$ 528,029</u>	<u>\$ 158,860</u>	

Straight line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

3. INCOME TAXES

One of the subsidiary companies has incurred losses in prior years which are available, for income tax purposes, as a deduction from future profits. At February 29, 1976 losses carried forward amounted to approximately \$8,300.

4. CAPITAL STOCK

Under the company's employee stock purchase plan common shares may be purchased in September each year in lots of ten at the then current market price, and payment may be spread over three years. The total number of shares available under this plan is 15,790.

5. LEASE AND OTHER COMMITMENTS

The company has signed an agreement with a shareholder, Stuart (Nassau) Limited, for Nassau to provide it with consulting and advisory services at a rate of \$30,000 per annum. This agreement expires February 28, 1982.

The company and its subsidiaries are committed to annual rentals under leases as follows:
1976-1977, \$119,268; 1978-1979, \$90,468; 1980, \$50,458; 1981-1991, \$32,968.

6. DIRECTOR'S REMUNERATION

The aggregate remuneration (none of which was to the directors as such) charged to consolidated earnings for the year ended February 29, 1976 in respect of six directors (five of whom were also officers) was \$243,714 all of which was paid by Stuart House Canada Limited.

7. CONTINGENT LIABILITIES

- (a) The company is contingently liable on a mortgage liability of Stuart (Nassau) Limited. At February 29, 1976 the principal outstanding on the 5½% mortgage was approximately \$105,000. Management is satisfied that there is adequate security to cover the mortgage.
- (b) The company has appealed and won an assessment of sales taxes for a four month period in 1974 in the amount of \$17,000. The sales tax department has appealed this decision. If the Minister wins their appeal the company may become liable for approximately \$150,000 in federal sales tax for 1975 and 1976.

8. CASH SURRENDER VALUE OF LIFE INSURANCE

Cash surrender value of life insurance is stated net of loans of \$120,805 (1975 — \$119,189).

9. EXTRAORDINARY ITEMS

	1976	1975
Write-down of fixed assets	(\$ 37,840)	—
Gain on redemption of debenture	—	\$ 32,916
Recovery of goodwill on sale of a division of a subsidiary, Stuart House Canada Limited	—	25,658
Income tax reductions realized due to prior year's losses carry-forward	43,770	77,000
	<u>\$ 5,930</u>	<u>\$ 135,574</u>

10. LOANS RECEIVABLE

Loans receivable are secured by mortgages on property. These loans were made by a subsidiary to employees who are also directors for the purpose of creating or purchasing dwellings.

11. COMPARATIVE FIGURES

Certain figures on the 1975 comparative figures have been restated to conform with the statement presentation adopted in 1976.

THE COMPANY — ITS HISTORY AND BUSINESS

The main operating subsidiary of Stuart House International Limited is Stuart House Canada Limited, which is primarily a sales and distribution company. Mr. John Stuart Sr., now retired, founded the company in 1936 at Winnipeg as a manufacturers sales' agent for Western Canada. The company was so successful in the West that two of the companies we represented as sales' agents actually persuaded us to expand into Eastern Canada and take over their sales for the whole country. This was done in 1941 and now the Company's head office is in Toronto with sales offices in Halifax, Montreal, Winnipeg, Edmonton and Vancouver.

The company operates primarily in the food, drug, confectionery and department store trade across Canada. Usually, we sell through wholesalers and chain head offices. However, we also call on individual stores and this requires an extensive sales force. We now have 40 sales people in over 20 cities across Canada.

As a Sales Agent, Stuart House Canada Limited is able to offer a full range of marketing facilities to the principal companies we represent. In some cases, we buy and sell for our own account, handling all of the credit, warehousing and shipping and advertising. Sales of these products are included in our accounts under Warehouse Sales. In other cases, we solicit the order and turn it over to the manufacturer who ships and invoices it, and pays us a commission of a percentage of the net invoice value. These are listed under our Consolidated Statement of Operations as Commission Sales and the actual commission received is shown as Commission Income.

Originally Stuart House Canada Limited acted as a sales agent only for other companies. Over the years we have also developed product lines that we package and market under our own Stuart House label, in addition to the products we distribute on an agency basis.

The sales and distribution of these products is a great cost saving advantage for the company and its principals, because in effect we are sharing the marketing cost. Canada, as a whole, is still a relatively sparsely populated, widely scattered market, requiring a large, expensive marketing organization to physically cover it. However, once this organization is set up, it can usually market additional products at a relatively low cost, if they are in the same trade category.

This puts the company in a unique position to increase its total sales even more in the future. Not only can we expect the normal increases that should come on our existing product lines, but we can also increase sales by taking on additional agency lines.

In addition to the goods which we manufacture and sell under the Stuart House label, we are proud to represent the following companies as Sales Agents for their products in all or part of Canada

Barnes-Hind Pharmaceuticals,
Sunnyvale, California.

BARNES-HIND SOLUTIONS, ETC.,
FOR CONTACT LENSES

W. T. Hawkins Limited,
Belleville, Ontario.

CHEEZIES, MAGIC-POP POPPING CORN

LePage's Limited,
Toronto, Ontario.

GLUES AND ADHESIVES

Lewis-Howe Company Limited,
Windsor, Ontario.

TUMS AND NATURE'S REMEDY

Swizzels Matlow Ltd.
New Mills, England.

IMPORTED ENGLISH CONFECTIONERY

Plough (Canada) Limited,
Malton, Ontario.

COPPERTONE SUN TAN PRODUCTS,
ASPERGUM, ANSODENT, FEEN-A-MINT, Etc.

Polymer International (N.S.) Limited,
Truro, Nova Scotia.

PLASTIC GARBAGE BAGS

Purity Popcorn Co., Ltd.
Toronto, Ontario.

LUCKY ELEPHANT POPCORN

Romar Pet Supplies Limited,
Weston, Ontario.

ROMAR 90 DOG & CAT FOOD

Primo Importing & Dist. Co.
Montreal, Quebec.

PRIMO SPAGHETTI, ETC.

THEY MADE IT HAPPEN!



Each of the salesmen in this picture exceeded his sales quota for the year by 5%, or more. Since equalling the sales quota required a significant increase over the previous year's sales, beating that quota by 5% represents a real achievement in salesmanship. All of these great achievers were led by the men of our Quebec division who had an increase of 42% in their dollar sales for the year.



Making it possible for the salesmen to beat those quotas, is a great group of people behind the scenes. These are the employees in our offices, warehouse and plant who make sure the sales are handled promptly and efficiently from the time the order is taken until it is delivered to the customer.

